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**THE SIMULTANEOUS EFFECT OF OWNERSHIP
STRUCTURE ON CAPITAL STRUCTURE AND DIVIDEND
POLICY AND THE MODERATING ROLE OF GROWTH
OPPORTUNITIES, CORPORATE RISK AND MARKET
CONDITIONS**



MOUSA SHARAF ADIN HEZAM SALEH

**DOCTOR OF PHILOSOPHY
UNIVERSITI UTARA MALAYSIA
May 2019**

**The Simultaneous Effect of Ownership Structure on Capital Structure and
Dividend Policy and The Moderating Role of Growth Opportunities, Corporate
Risk and Market Conditions**



By

MOUSA SHARAF ADIN HEZAM SALEH

**Thesis Submitted to
School of Economics, Finance and Banking,
Universiti Utara Malaysia,
in Fulfillment of the Requirement for the Degree of Doctor of Philosophy**



Kolej Perniagaan
(College of Business)
Universiti Utara Malaysia

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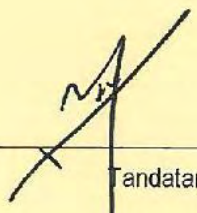
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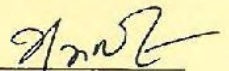
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ABSTRACT

The corporate finance literature verifies that shareholders use dividend policy and capital structure as monitoring mechanism to mitigate agency problems at both levels of conflicts: shareholders-managers and minority-majority shareholders. However, theories supported by empirical studies also introduce other strands of motives underlying these policies and the necessity of addressing them simultaneously. Therefore, this study examined the effect of corporate ownership structure on capital structure and dividend policy simultaneously. It also examined the moderating role of growth opportunity, corporate risk, and market condition as non-monitoring motives behind the adoption of a specific capital structure and dividend policy. This study utilized 407 Malaysian-listed firms over the period from 2012 to 2015 and adopted simultaneous modeling using a two-stage least square (2SLS) regression techniques. The findings show that both dividend and capital structure policies have positive impacts on each other. The substantial, government and foreign ownership affect dividends positively and capital structure negatively. On the other hand, the bidirectional agency effect of family and managerial ownership distorts their effect on both dividends and capital structure. However, growth opportunities are found to moderate the dividends relationship with substantial, government and foreign ownerships negatively. This indicates optimal reinforcement of monitoring mechanism and better alignment between managers, majority and minority shareholders. In addition, the interaction of family and managerial ownership with growth opportunities is found to be positive, indicating the likelihood of expropriation of wealth which forces family and managerial shareholders to pay higher dividends and rely on external finance to fund the growth. Furthermore, corporate risk moderates the effect of substantial and government ownerships on dividends negatively and on capital structure positively. Finally, the market condition is found to only moderate the relationship between capital structure and ownership structure. The study provides various theoretical and practical implications to improve corporate governance and corporate financial policies.

Keywords: dividends, capital structure, ownership identities, non-monitoring motives

ABSTRAK

Karya dalam bidang kewangan korporat mengesahkan bahawa pemegang saham menggunakan polisi dividen dan struktur modal sebagai mekanisme pemantauan untuk mengurangkan masalah agensi pada kedua-dua tahap konflik: pemegang saham-pengurus dan pemegang saham majoriti-minoriti. Walau bagaimanapun, teori-teori yang disokong oleh kajian empirikal telah juga memperkenalkan motif lain di sebalik penggunaan dasar-dasar ini dan keperluan untuk menanganinya secara serentak. Justeru itu, kajian ini mengkaji kesan struktur pemilikan korporat terhadap struktur modal dan polisi dividen secara serentak. Ia juga mengkaji peranan pembolehubah penyederhana seperti peluang pertumbuhan, risiko korporat dan keadaan pasaran sebagai motif bukan-kawalan di sebalik aplikasi struktur modal dan polisi dividen tertentu. Kajian ini menggunakan 407 syarikat Malaysia yang tersenarai sepanjang tempoh masa antara tahun 2012 sehingga 2015 dan mengaplikasi permodelan serentak menggunakan kaedah regresi *2SLS*. Dapatan kejadian menunjukkan kedua-dua polisi dividen dan struktur modal mempunyai impak positif terhadap satu sama lain. Pemilikan pemegang saham utama, kerajaan, dan pemilikan saham asing mempengaruhi dividen secara positif dan kepada struktur modal secara negatif. Sebaliknya, kesan dua hala agensi oleh pemilikan keluarga dan pemilikan pengurusan mengganggu kesan ke atas kedua-dua dividen dan struktur modal. Walaubagaimanapun, peluang pertumbuhan didapati meyerahkan hubungan antara dividen dengan pemilikan utama, kerajaan dan pemilikan asing secara negatif. Ini menunjukkan pengimbangan peranan mekanisma kawalan dan penjajaran yang lebih baik di kalangan pengurus dan majoriti-minoriti pemilik saham. Tambahan lagi, interaksi di antara pemilikan keluarga dan pemilikan pengurusan dengan peluang pertumbuhan didapati positif. Ini menunjukkan bahawa kemungkinan pengambilam kekayaan memaksa keluarga dan pemegang saham pengurusan membayar dividen yang lebih tinggi dan bergantung kepada kewangan luaran untuk membiayai pertumbuhan tersebut. Tambahan lagi, risiko korporat menyederhana kesan hubungan pemilikan utama dan pemilikan oleh kerajaan terhadap dividen secara negatif dan struktur modal secara positif. Akhirnya, keadaan pasaran didapati hanya menyederhanakan hubungan antara struktur modal dan struktur pemilikan. Kajian ini turut menyediakan pelbagai implikasi dalam aspek teori dan amali untuk meningkatkan urustadbir korporat dan polisi kewangan korporat.

Kata kunci: dividen, struktur modal, identiti pemilikan, motif bukan-kawalan

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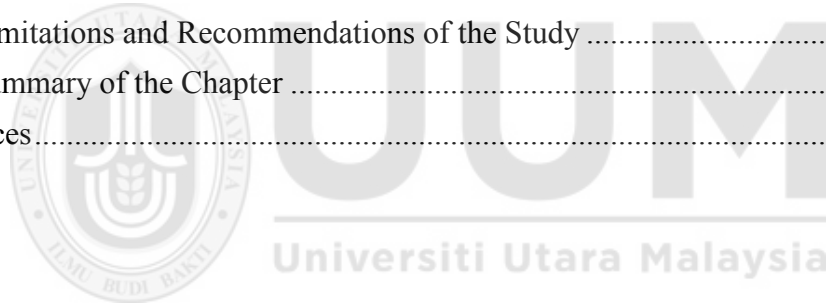
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LIST OF ABBREVIATIONS

SC	The Securities Commission
FTSE	The Financial Times Stock Exchange
GLCs	Government Linked Companies
OLS	Ordinary Least Squares
2SLS	Two-Stage Least Squares
KLCI	Kuala Lumpur Composite Index
SMEs	Small and Medium-sized Enterprises
GMM	Generalized Method of Moments
3SLS	Three-Stage Least Squares
FE	Fixed Effect
RE	Random Effect
FGLS	Feasible generalized least squares
SUR	Seemingly unrelated regressions
IV	Instrumental Variable techniques
DIV	Dividend payout ratio
LEV	Leverage ratio
CON	Ownership Concentration
FAMILY	Family ownership
MWON	Managerial ownership
GOV	Government ownership
FOREIGN	Foreign ownership
TQ	Tobin's Q ratio (growth opportunity)

STDEV	Standard deviation (corporate risk)
BETA	Beta value (corporate risk)
SM	Stock Market performance (Market condition)
ROA	Profitability
PAST_D	Past dividends
TAX	Effective tax rate
TANG	Tangibility of assets
VIF	Variance Inflation Factor
LM	Lagrange Multiplier test
G2SLS	Generalized Two-Stage Least Squares



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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The last decade has seen an emergence of studies investigating the determinants of corporate decisions, their causes and effects on firms' value and shareholders' wealth. The issues of how firms choose to finance their investment activities and how they distribute their earnings to shareholders remain as primary puzzles in the world of corporate finance. Studies and theories of finance regarding dividend and capital structure policies focus on three different aspects, namely (i) the effect of these policies on firm value and maximization of shareholders' wealth, (ii) factors that affect policies, and (iii) the interdependence of policies. However, the findings of these studies are mixed. Thus the issues have not been satisfactorily resolved.

This chapter starts by introducing the background of the study. The next section discusses the problem statement of the study, followed by a description of the research questions and research objectives. The chapter then proceeds to present the significance of the study and theoretical and practical contributions. Finally, the chapter concludes by identifying the scope of the study and the structure of the chapters.

1.1.1 Dividends and Capital Structure

Modigliani and Miller (1958) and Miller and Modigliani (1961) are among the earliest scholars who assert that in a world of perfect capital market, financial policies, namely

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